

WATER AND SEWER FUND

Description: The Water and Sewer Fund is one of the three enterprise funds operated by the Village. This Fund accounts for the revenues and expenses related to the provision of water and sewer services to residents and businesses. All activities necessary to provide these services are contained in this Fund including administration, billing and collections, operations, maintenance, capital improvements and debt service.

Fund Structure

The Water and Sewer Fund is an enterprise fund which means the revenues, expenditures, transfers, and financial results are accounted for through full accrual accounting (*please see the Basis of Budgeting section on Pages 30-31 for a more thorough description of modified accrual accounting*). The financial position of the Fund is determined by the Change in Net Assets at year-end. Net Assets are equal to total assets (*including all capital assets*) less total liabilities. Net Assets reflect the total productive investment in the utility system.

A balanced budget in the Water and Sewer Fund is determined by the positive or negative change in Net Assets. The budgeted Change in Net Assets is indicative of the Fund's ability to generate sufficient resources to meet operating and non-operating expenses. If the Change in Net Assets is equal to or greater than \$0, the Fund's budget is considered to be balanced.

Minimum Net Assets

Minimum Unrestricted Net Assets for the Water and Sewer Fund have been established at three months of operating expenditures plus one quarter (25%) of the accumulated depreciation of the Capital Assets in the Fund. Short of a natural disaster, enterprise fund revenues are stable and predictable; establishing a minimum fund balance of three months operating expenditures should provide sufficient security for operating activities in this type of Fund. The addition of one quarter (25%) of accumulated depreciation of the Capital Assets of the Fund is necessary to ensure adequate resources are available to reconstruct or rehabilitate capital assets as they reach the end of their useful lives. The expense of reconstructing or rehabilitating capital assets in the Water and Sewer Fund can be prohibitive unless an adequate reserve has been accumulated in the Fund for the purpose of reconstruction or rehabilitation.

The determination of whether the Water and Sewer Fund is meeting its minimum required Unrestricted Net Assets is based upon the most recent Comprehensive Annual Financial Report (CAFR). In the 2003 CAFR, operating expenses for the Water and Sewer Fund were equal to \$3,426,297 and accumulated depreciation was equal to \$14,519,370. According to Village policy, minimum Unrestricted Net Assets should be equal to \$4,486,416 ($\$3,426,297 * 25\% + \$14,519,370 * 25\%$). Unrestricted Net Assets in the 2003 CAFR equaled \$3,219,442, \$1,266,974 less than the minimum established by policy.

Analysis of Revenues and Expenditures

The 2005 Budget includes \$4,053,750 in estimated revenues for the Water and Sewer Fund, a decrease of \$305,429 (7.53%) from the 2004 revenue estimate of \$4,359,179 and a \$126,079 (2.98%) decrease from projected 2004 actual revenues of \$4,233,100. The 2006 Budget includes \$4,158,750 in total revenues for the Fund, an increase of \$105,000 (2.59%) from the 2005 revenue estimate (*please see the Revenue Descriptions, Historical Trends, and Projections section on Pages 71-89 for more detailed analysis of various revenue sources*).

- Water Sales are projected to increase \$46,300 (3.04%) in 2005, from \$1,523,700 (*projected actual*) in 2004 to \$1,570,000 in 2005. A further increase of \$45,000 (2.87%) to \$1,615,000 is projected to occur in 2006. These increases are a combination of the rate increases included in the Budget (*3% increase in*

both water and sewer usage rates) and a projected increase in usage as additional housing and commercial units within the Village are occupied. The increase in 2005 is larger than the increase in 2006 because usage is projected to increase slightly more from 2004 to 2005 than from 2005 to 2006.

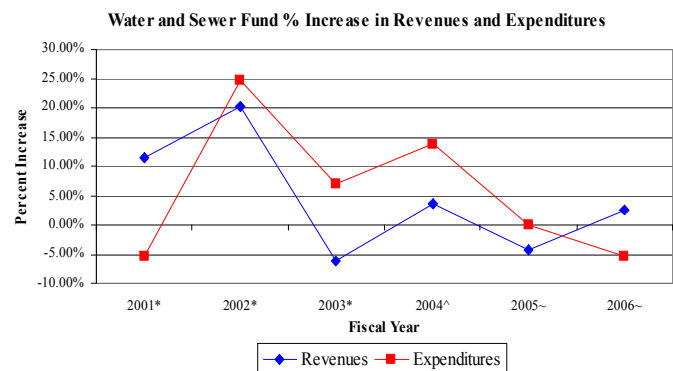
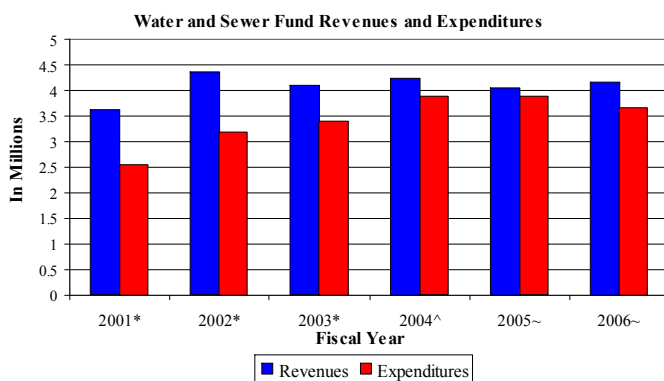
- Sewer Sales are projected to increase \$57,500 (3.01%) in 2005, from \$1,910,400 in 2004 (*projected actual*) to \$1,967,500 in 2005. A further increase of \$57,500 (2.92%) to \$2,025,000 is projected to occur in 2006. These increases are a combination of the rate increases included in the Budget (*3% increase for both water and sewer usage rates*) and a projected increase in usage as additional housing units within the Village are occupied. The increase in 2005 is equal to the increase in 2006 because usage is projected to increase slightly more from 2004 to 2005 than from 2005 to 2006.
- Industrial Surcharge revenues are estimated to remain stable at \$500 in both 2005 and 2006.
- Miscellaneous operating revenues are expected to decrease slightly (\$250) in 2005 to \$38,250 and then remain stable in 2006.
- Investment Income is expected to increase \$17,500 (30.97%) in 2005, from \$56,500 in 2004 (*projected actual*) to \$74,000 in 2005. In 2006, this revenue source is expected to increase an additional \$2,500 (3.38%). The increase in both years is expected to occur due to increasing interest rates which should produce additional investment income from purchases of Federal Agency Bonds and Certificates of Deposit. The increase in interest rates will also have a positive effect on the Village's return from its money market account (*the Illinois Funds Account managed by the State of Illinois Treasury*). Finally, the Fund's cash position has increased over the last couple of years and this provides additional cash with which the Fund can earn investment income.
- Connection Fees are estimated to decrease \$300,000 (42.86%), from \$700,000 in 2004 (*projected actual*) to \$400,000 in 2005. In 2006, this revenue source is projected to remain stable at \$400,000. In the last couple of years, the Village has received Connection Fee revenue that is much higher than it receives in a typical year, due to developments within the community. In 2005 and 2006, Connection Fees are expected to return to a more normal level of around \$400,000.
- Miscellaneous non-operating revenues are expected to remain stable at \$3,500 in both 2005 and 2006.

The 2005 Budget includes \$3,999,496 in budgeted expenditures for the Water and Sewer Fund, an increase of \$62,074 (1.58%) from the 2004 Budget of \$3,937,422 and an increase of \$126,469 (3.27%) from the projected 2004 actual of \$3,873,027. The 2006 Budget includes \$3,664,390 in total expenditures for the Fund, a decrease of \$335,106 (8.38%) from 2005 budgeted expenditures.

- The 2005 Administrative Services budget will increase \$12,550 (12.71%), from an amended budget of \$98,724 in 2004 to a proposed expenditure budget of \$111,274 in 2005. In 2006, the Administrative Services budget will increase an additional \$3,764 (3.38%) from \$111,274 to \$115,038 in 2006. The increase in 2005 is the result of higher Personnel Services costs due to an increase in salaries and fringe benefits. Increases in health insurance premiums and IMRF pension contributions have a pronounced impact on this budget because of its small size. In 2006, the small increase is also the result of increases in Personnel Services as salary and fringe benefit costs again rise.
- The 2005 Public Works Department budget will increase \$99,583 (3.14%), from an amended budget of \$3,174,692 in 2004 to a proposed expenditure budget of \$3,274,275 in 2005. In 2006, the Public Works budget will decrease \$195,079 from \$3,274,275 to \$3,079,196. The increase in 2005 is caused by increases in Personnel Services and Operating Expenditures which are offset to some extent by a decrease in Other Expenditures. Personnel Services increase in 2005 due to a rise in costs for salaries, health insurance premiums, and IMRF pension contributions. Operating Expenditures increase due to an increase in Contractual Services as the Department undertakes several large repairs to wastewater treatment facilities. In 2006, increases in Personnel Services (*i.e., salaries and fringe benefits*) were offset by a decrease in Operating and Other Expenditures as Contractual Services and Interfund Charges were reduced in 2006.

- The 2005 Non-Capital Construction budget will increase \$65,000 (13.68%), from an amended budget of \$475,000 in 2004 to a proposed expenditure budget of \$410,000 in 2005. In 2006, Non-Capital Construction will decrease \$130,000 (31.71%) from \$410,000 to \$280,000 in 2006. These decreases are caused by an increase in the budget for Capital Construction (*please see Footnote Three at the bottom of the Summary of Revenues, Expenses, Transfers, and Changes in Net Assets*) as more of the work performed during the biennial budget period is expected to be capitalized, when compared to 2004 (*please see the Capital Improvements Section for a description of the projects that will occur in 2005 and 2006*).
- Interest Expenses are expected to increase \$17,652 (9.44%), from \$186,926 in 2004 to \$203,948 in 2005. In 2006, Interest Expenses are expected to decrease \$13,792 (6.76%) to \$190,156. The increase in 2005 is expected to occur because the Fund will begin paying interest on the Illinois Environmental Protection Agency low interest loans that were taken out in conjunction with the renovation of the Wastewater Treatment Facility in 2003 and 2004. The decrease in 2006 is projected to occur because the Village will be paying less in interest and more in principal as bond and loan payments mature (*please see the Budgeted, Non-Expensed Items display in Footnote Three on the Summary of Revenues, Expenses, Transfers, and Changes in Net Assets for an illustration of the budget for Principal Payments*).
- Principal Payments will decrease in 2005 by \$34,450 (8.90%) to \$352,550; an increase of \$9,191 (2.61%) is budgeted in 2006. The decrease in 2005 occurs because the amount budgeted in 2004 was higher than actual payments as the Village did not utilize IEPA loans for the Wastewater Treatment Plant Improvement Project as soon as originally anticipated. Therefore, in 2004, the amount borrowed was less than anticipated and the budget for Principal Payments was too high. The increase in 2006 occurs as the Village pays down the debt and the Principal Payments increase.
- Capital Construction increases \$786,500 (184.62%) in 2005 to \$1,212,500; a further increase of \$519,500 (42.85%) to \$1,732,000 occurs in 2006 (*please review the Capital Improvements section on Pages 226-250 for descriptions of Water and Sewer Capital Construction Projects*).

The difference between the amount of revenues and expenditures in the Water and Sewer Fund has been declining during the six-year period from 2001 to 2006. In 2001, revenues were equal to a little over \$3.5 million and expenditures were equal to a little over \$2.5 million. In 2006, the difference between revenues and expenditures has decreased to slightly less than \$500,000 as revenues are projected to exceed \$4 million and expenditures are projected to exceed \$3.5 million. The percent increase in expenditures exceeds the percent increase in revenues in 2002, 2003, 2004, and 2005.



* Actual Expenditures ^Projected Expenditures ~Budgeted Expenditures

Changes in Net Assets

Net Assets will increase \$54,254 (.24%) in 2005 to a total of \$22,147,866. In 2006, Net Assets will increase an additional \$494,360 (2.23%) to a total of \$22,642,226.

Water and Sewer Fund
Summary of Revenues, Expenditures, Transfers, and Changes in Net Assets
Fiscal Year 2002 Actual through Fiscal Year 2006 Budget

	FY 2002 <u>Actual</u>	FY 2003 <u>Actual</u>	FY 2004 <u>Amended Budget</u>	FY 2004 <u>Projected Actual</u>	FY 2005 <u>Approved Budget</u>	FY 2006 <u>Approved Budget</u>
Beginning Net Assets	21,006,093	21,684,668	21,736,769	21,736,769	22,096,842	22,151,096
<i>Operating Revenues</i>						
Charges for Services						
Water Sales	1,493,460	1,506,185	1,594,469	1,523,700	1,570,000	1,615,000
Sewer Sales	1,906,561	1,886,056	2,176,710	1,910,400	1,967,500	2,025,000
Industrial Surcharge	-	273	1,000	500	500	500
Miscellaneous - Meter Sales & Other	25,775	33,783	40,000	38,500	38,250	38,250
Total Revenues	3,425,796	3,426,297	3,812,179	3,473,100	3,576,250	3,678,750
<i>Operating Expenses</i>						
Administrative Services	83,427	81,109	98,724	92,795	111,274	115,038
Public Works	2,305,818	2,574,957	3,174,692	3,118,306	3,274,275	3,079,196
Non-Capital Construction	612,386	548,877	475,000	475,000	410,000	280,000
Total Operating Expenses	3,001,631	3,204,943	3,748,416	3,686,101	3,795,548	3,474,234
Operating Income (Loss)	424,165	221,354	63,763	(213,001)	(219,298)	204,516
<i>Non-Operating Revenues (Expenses)</i>						
Investment Income	35,404	41,570	145,000	56,500	74,000	76,500
Connection Fees	739,140	471,620	400,000	700,000	400,000	400,000
Miscellaneous Income	3,500	29,817	2,000	3,500	3,500	3,500
Contributed Capital	147,250	117,000	-	-	-	-
Interest Expenses	(181,953)	(202,872)	(211,006)	(186,926)	(203,948)	(190,156)
Total Non-Operating Revenues (Expenses)	743,341	457,135	335,994	573,074	273,552	289,844
Net Income / Loss	1,167,506	678,489	399,757	360,073	54,254	494,360
Depreciation ⁽²⁾	(488,931)	(626,388)	-	-	-	-
Change in Net Assets	678,575	52,101	399,757	360,073	54,254	494,360
Ending Net Assets	21,684,668	21,736,769	22,136,526	22,096,842	22,151,096	22,645,456

Notes

- (1) According to Village Policy, the Water and Sewer Fund Budget is balanced if the Change in Net Assets is equal to or greater than \$0.
- (2) The Village does not budget depreciation.
- (3) Budgeted but Non-Expensed Items include Capital Construction and Principal Payments, illustrated below

	FY 2002 <u>Actual</u>	FY 2003 <u>Actual</u>	FY 2004 <u>Amended Budget</u>	FY 2004 <u>Projected Actual</u>	FY 2005 <u>Approved Budget</u>	FY 2006 <u>Approved Budget</u>
<i>Budgeted, Non-Expensed Items</i>						
Principal Payments	\$ -	\$ -	\$ 387,000	\$ -	\$ 352,550	\$ 361,741
Capital Construction	-	-	404,000	-	1,212,500	1,732,000
<i>Budgeted, Non-Expensed Items Total</i>	\$ -	\$ -	\$ 791,000	\$ -	\$ 1,565,050	\$ 2,093,741